Consolidation Transforming Latvia's Retail Sector

By Jolanta Andersone

For U.S. exporters, retail food market conditions are not perfect in Latvia. But with consumer purchasing power on the rise and tourism growing, prospects are definitely up for U.S. consumer-oriented items. In fiscal 2002, high-value items represented 66 percent of all U.S. agricultural exports to Latvia, which totaled $28.2 million.

And the trend is continuing. In the first five months of 2003, U.S. consumer-oriented product sales were up 26 percent from the year before.

Rapid expansion of mostly Nordic European retail chains into Latvia also enhances the climate for successful business relationships. U.S. exporters do, however, face two obstacles that hinder market entry: a general unfamiliarity with U.S. food products and tariff disadvantages.

Increasing product awareness among Latvian consumers and importers is an easier fix than easing Latvia's restrictions for U.S. products. Latvia's close trading relations and lowered tariffs with the EU (European Union) and free trade agreement partners have the effect of making U.S. products less price competitive.

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Awareness of U.S. Products Low

Latvian consumers lack knowledge about many U.S. high-value products. Besides tariffs and other barriers, additional factors hinder imports of U.S. products:

- Trade terms with U.S. companies that tend to require payment up to two months in advance
- Exchange rate risk
- Minimum quantities offered that are too large for the Latvian market
- Perceptions that transportation costs make products too expensive and exporters are too far away to service the market
- The limited number of Latvian importers who have been exposed to U.S. high-value products

Plan Market Entry

Exporters wanting to enter this market should practice strategies to overcome lack of product awareness with consumers and importers. Initial efforts should include:

- Research to assess market opportunities
- Competitive pricing
- Partnering with an experienced distributor with reliable distribution channels
- Exploring direct exports to larger retail chains
- Taking advantage of USDA's export credit programs to make credit terms more attractive for buyers

Chains Spark Competition

Nordic chain food retailers began opening large stores in Latvia in the mid-

1990s. The emergence of these Nordic or Baltic retail chains with centralized purchasing and logistical operations is bringing greater economies and efficiencies to the Baltic market.

With $834 million in sales in 2001, large supermarkets and hypermarkets accounted for almost half of Latvia's food retail marketplace. Growth for 2002 is expected to have been between 10 and 12 percent.

Supermarkets are also emphasizing convenience by adding services such as delis, cafeterias, ready-to-eat meals and party trays. Small businesses like flower and gift shops are also being found in these stores.

To further entice shoppers, larger supermarkets offer services like dry-cleaning, shoe repair, banking, insurance, film developing and video rental.

Chains also own and operate convenience stores, gas marts and kiosks. Sales from these retail subsectors totaled $158 million in 2001; convenience stores took in almost 50 percent of the total, with gas marts and kiosks splitting the remainder. Imported products in these stores are usually supplied by local wholesalers.

Influx of foreign capital is expected to push development of convenience stores and kiosks, mostly in urban areas. This sector, which offers a large selection of imported food products, will be expanding as new investors acquire and upgrade traditional independent stores.

On average, food sales account for 15 percent of gas marts' income. But the willingness of consumers to pay extra for convenience is expected to wane as supermarkets and hypermarkets, which offer similar products at lower prices, become plentiful.

Despite sales of $276 million in 2001, independent stores and wet markets (traditional street markets) are declining due to the spread of larger chains, but they will continue to operate in small towns and the countryside, where a third of Latvia's population lives.

These stores sell mostly domestic products to price-conscious consumers. In the summer, however, a few large importers distribute fresh vegetables and fruits that go to open-air markets. Limited amounts of imported processed vegetables and fruits, confectionery, breads and dairy products, fish, meats and poultry are sold at kiosk-type outlets. Usually just U.S. frozen poultry products find their way to these markets.

Competition From Europe

Suppliers in other European countries have been gaining ground in the Latvian marketplace in recent years. They have proximity, historical ties, high-quality products, competitive pricing, marketing support and logistical advantages. Added constraints for U.S. food sales include:

- Sanitary and phytosanitary standards are changing as Latvia prepares for EU accession.
- While duties for EU imports are declining, tariffs applied to U.S. imports are staying the same; tariff-rate quotas are being eliminated for more EU products.
- Due to lower duty rates, Latvia imports about 80 percent of its food from the EFTA (European Free Trade Association) countries—Iceland, Liechtenstein, Norway and Switzerland—and CEFTA (Central European Free Trade Agreement) members—the Czech Republic, Hungary, Poland, Slovakia, Slovenia, Romania and Bulgaria.
- U.S. products face costly product clearance and approval processes that are waived for other countries.
- Personal and financial ties sometimes influence importers' product choices.

Prospects With Potential

Despite these barriers, the following U.S. products can be found on Latvian food market shelves: frozen poultry products, rice, fish, dried fruits, nuts, wines, fresh fruits and pet foods. Some available U.S. brands manufactured in other European countries include chips and other packaged snacks, soft drinks and candies.

With an eye toward future sales of high-value products in Latvia, exporters should regard these products as best bets:

- Nuts, peanut butter, dried foods like raisins, and snacks
- Frozen yogurt and sherbet
- Soft drinks, drink mix powders and wines
- Frozen juices, pizzas, meats, pastas, other convenience foods and ready-to-eat meals
- Frozen and canned fish and seafood
- Frozen and canned vegetables and fruits
- Cereals
- Cheeses
- Condiments such as maple syrup, jams and jellies, sauces and salad dressings ■

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